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CHARTERED ACCOUNTANTS

NEWS UPDATE - 12 December 2024

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For better or worse? The corporate tax roadmap

As part of the October Budget, the government published a 'corporate tax roadmap', outlining a commitment to maintaining corporate tax rates for the duration of this parliament. This provides businesses with welcome certainty going forward, although the existing increased rates of corporation tax introduced in 2023 remain a source of disquiet.

So said the Office for Budget Responsibility (OBR) in the first The government's intention with publishing the corporate tax roadmap is that a stable and predictable tax environment will help to provide the confidence companies need to invest, innovate and grow over the long term.

Main commitment

The government has left itself the option of cutting the main rate of corporation tax should this be necessary to keep the UK's tax regime competitive. This includes:

- **Rate of corporation tax:** The main rate will be capped at 25%, with the small profits rate and marginal relief kept at their current rates and thresholds.
- **Capital allowances:** The system of 100% and 50% first-year allowances on new plant and machinery expenditure will be maintained, as will the £1 million annual investment allowance threshold and the structures and buildings allowance.
- **R&D reliefs:** The current rates for both the merged research and development (R&D) expenditure credit scheme and enhanced R&D intensive support for small- to medium-sized enterprises (SMEs) will be maintained.
- **Loss reliefs:** The current loss reliefs for both standalone companies and groups will remain in place.

Potential improvements

The roadmap also highlights areas of corporate tax where the government will explore possible improvements. One particular area of concern is the tax treatment of predevelopment costs. A recent Upper Tribunal decision was that the cost of preliminary studies performed prior to the installation of wind turbines did not qualify for capital allowances.

Not surprisingly, this decision has caused uncertainty for investors and a follow-up consultation will be launched in the coming months. The Upper Tribunal's decision does not match the government's aim of encouraging investment in renewable energy.

The full text of the government's corporate tax roadmap can be found from the link below:

https://assets.publishing.service.gov.uk/media/67211994da1c0d41942a8bd/Corporate_Tax_Roadmap.pdf

The consequences of higher employer's national insurance contributions

The impact of the Budget's increases in national insurance contributions (NICs) are not limited to employers.

There were three main changes to employer's NICs announced in the Budget, all of which will take effect from April 2025:

- The secondary threshold – the starting point for payment of employers' NICs – will be cut from £9,100 to £5,000. The employee's starting point remains at £12,570.
- The employer's NICs rate will rise from 13.8% to 15.0%.
- The employment allowance, effectively an employer's NIC credit, will be increased from £5,000 to £10,500.

The cut in the secondary threshold is the biggest revenue raiser and the change provoking the most complaints from businesses in the retail, leisure and hospitality sectors. It is easy to see why. The NICs cost of employing a part-timer earning £175 a week goes up from nil to £11.85 a week. That is before the 6.7% increase in the national living wage kicks in (or the double-digit increases for under-21s on the national minimum wage).

The Office for Budget Responsibility (OBR) anticipates that employers will react in a variety of ways, including restricting future pay rises, reducing hours and cutting back on recruitment. There may also be a rise in self-employment (where the maximum total NICs rate is now 6%) and individuals working through one-person companies, although this is a contentious area. The line between a contractor and an employee has seen plenty of legislation and litigation over recent years.

If you are already self-employed, then on purely tax grounds, the appeal of incorporating has been reduced by the rise in NICs. It had already been weakened by increased tax on dividends, which are now in many instances a more costly way for an owner-director to draw profits out of a company rather than taking a bonus.

If you are an employee, then one indirect benefit you may see because of the NICs rise is the introduction (or improvement) of salary sacrifice schemes for pension contributions and, possibly, electric company cars. Both can save the employer NICs, part of which is often passed on to the employee.

More detail on the change to employer's NICs can be found the link below:

ww.gov.uk/government/publications/changes-to-the-class-1-national-insurance-contributions-secondary-threshold-the-secondary-class-1-national-insurance-contributions-rate-and-the-empl

Long freeze on individual savings accounts

Hidden away in the October Budget announcements was the freezing of individual savings accounts (ISA) annual subscription limits until 5 April 2030. Good news that there is no intention to remove this valuable tax-free savings option, but bad news given the fiscal drag involved.

The main £20,000 ISA allowance has been in place since 6 April 2017 and will remain unchanged for a further five tax years.

Other subscription limits

The following annual subscription limits are also going to be frozen until 5 April 2030:

	SUBSCRIPTION LIMIT
Lifetime ISAs	£4,000
Junior ISAs	£9,000
Child trust funds (CTFs)	£9,000

The subscription limit of £20,000 applies across the four main adult ISAs each tax year – the cash ISA, the stocks and shares ISA, the innovative finance ISA and the Lifetime ISA. Although the Lifetime ISA has a £4,000 subscription limit, this is still part of the overall £20,000 allowance.

There were concerns that the Chancellor was going to impose an overall limit on the amount of ISA saving, but the mooted lifetime cap of £500,000 did not materialise. There are currently over 4,000 ISA savers with ISA pots worth more than £1 million.

There were plans to introduce a UK ISA (or British ISA) with an additional £5,000 allowance, but the Chancellor has announced this idea will not proceed.

Fractional interests

Despite previously saying the complete opposite, HMRC have confirmed that fractional interests – commonly known as fractional shares – can be held within a stocks or shares ISA or a CTF invested in shares:

- The shares of some US tech companies – such as Apple and Microsoft – can cost £100s. The availability of fractional interests will help regular savers acquire such shares.
- The change will not come in immediately, but, subject to complying with the new regulations, existing fractional interests may be retained.

ISA managers will be required to remove any currently held fractional interests that are not eligible under the new regulations. HMRC's basic guide to ISAs can be found the link below:

https://www.gov.uk/individual-savings-accounts

Postgraduate student loans

While postgraduates with student loans face high effective marginal tax rates if they also have a normal student loan, it may not make financial sense to repay part or all their loans.

Regardless of the type of student loan – plan 1, 2, 4 or 5 – repayment for a normal student loan is at the rate of 9% once earnings exceed an income threshold. Depending on the plan, the threshold is between £24,990 and £31,395 annually.

Repayment of a postgraduate loan is at the rate of 6% once income reaches £21,000. Total student loan repayments could therefore be at a rate of 15%.

Marginal tax rates

An employee who is repaying both a normal and a postgraduate student loan is faced with an effective marginal tax rate of 43%:

- Earn between £50,270 and £100,000, and the rate becomes a hefty 57%.
- However, it gets even worse for those earning between £100,000 and £125,140, with a rate of 77%.

Unearned income is only taken into account if it exceeds £2,000 for the year and with this comes the requirement to submit a self-assessment tax return.

The £2,000 threshold for unearned income is all or nothing, so keeping unearned income within the threshold, or making sure a tax return is not required, will save on student loan repayments.

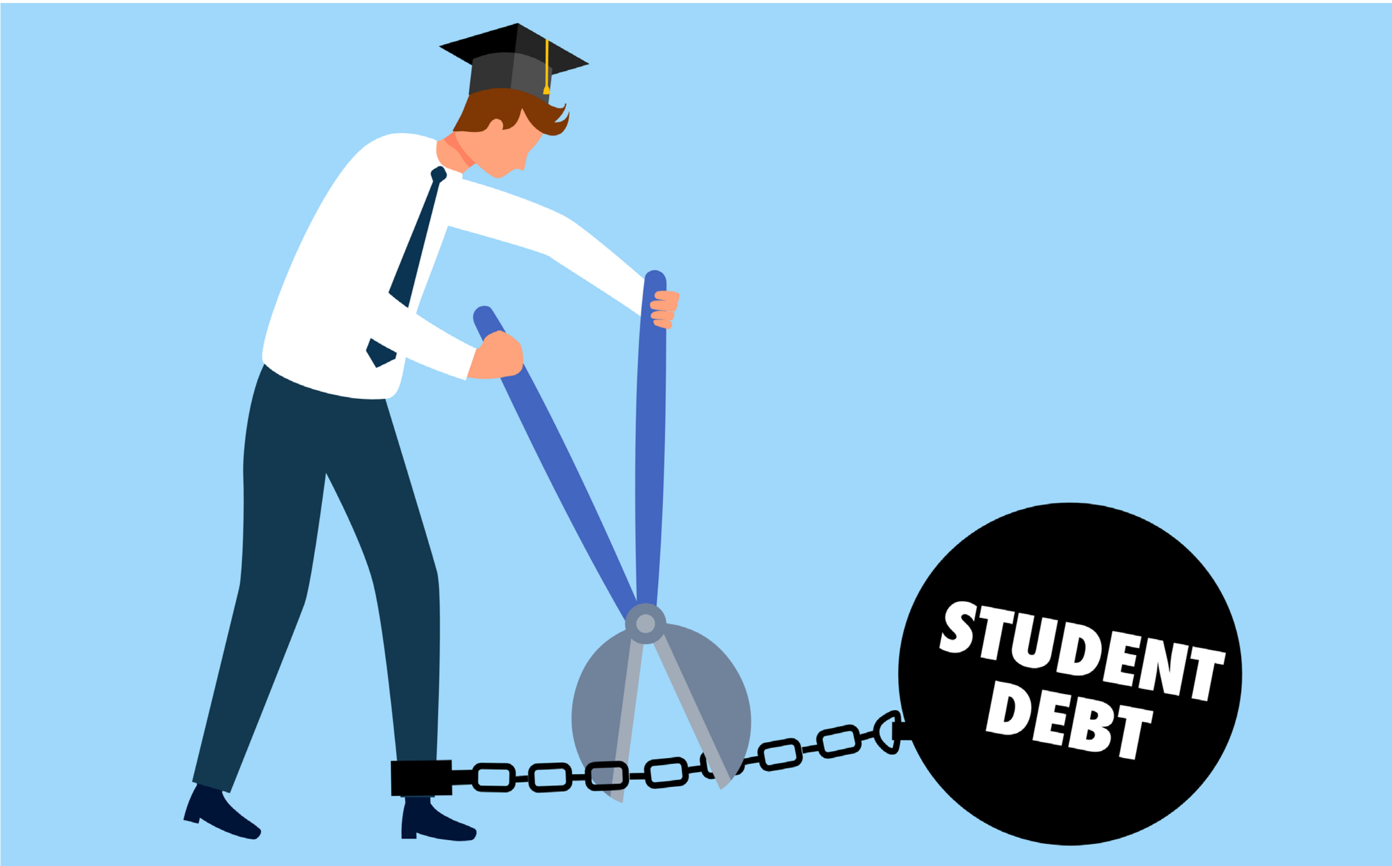
Repayment

Despite potentially high marginal tax rates, surprisingly, it will often not make financial sense to repay some or all of a student loan early. For example, Alan, an employee has a doctoral loan of £28,000:

- Based on 2024/25 repayment terms, if Alan earns £35,000, he will repay £840 annually, or £25,200 over 30 years before the balance of the loan is written off.
- If Alan had initially repaid £5,000 of the loan, he probably would still have ended up repaying the same total of £25,200 given the interest rate charged on postgraduate loans is set at RPI plus 3%.

Guidance on repaying student loans can be found from the link below:

https://www.gov.uk/repaying-your-student-loan



Umbrella companies back in the spotlight

Umbrella companies are often used to employ workers on behalf of recruitment agencies and end clients. However, HMRC is making changes from April 2026 to deal with umbrella companies who don't comply with their tax obligations.

HMRC analysis shows that around 40% of umbrella companies engaging workers for 2022/23 failed to comply with their tax obligations.

It is relatively easy to create an umbrella company, so the individuals behind non-compliant businesses can quickly establish new companies and relaunch them into the umbrella company market.

Change in responsibility

From April 2026, responsibility for accounting for PAYE and national insurance contributions (NICs; including employer NICs) will move from the umbrella company to the recruitment agency that supplies the worker to the end client. Where there is no agency in a labour supply chain, responsibility will sit with the end client:

- Recruitment agencies and end clients will still be able to contract with umbrella companies exactly the same as they do now.
- However, if the umbrella company fails to remit the correct amount of tax and NICs to HMRC, the recruiter or the end client will in future be liable for any shortfall.
- Workers should benefit, since, by avoiding being a party to non-compliant tax arrangements, they will not end up facing large, unexpected tax bills.

The logic behind the change in responsibility is that recruitment agencies and end clients can generally choose who they want to work with, so in future they will be careful not to deal with illegitimate operators.

Going forward

Smaller employment agencies will probably want to continue outsourcing the payroll function to umbrella companies. Given the potential cost of using a non-compliant company, agencies – and maybe end clients – should be more careful than ever in undertaking due diligence checks and/or having legal indemnities in place.

While the changes won't take place until April 2026, it is advisable for updated systems should be in place well before then. Contracts will need to be scrutinised and fee arrangements re-evaluated.

HMRC's policy paper explaining how it will tackle non-compliance in the umbrella company market can be found from the link below:

https://www.gov.uk/government/publications/tackling-tax-non-compliance-umbrella-company-market/

Should you wish to discuss this News Update in further detail please contact BGM at: communications@bgm.co.uk